

Cryptocurrencies vs. Bullion: A Debate on Safe Havens

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Investors constantly seek safe havens to protect their wealth in an era of financial volatility and economic uncertainty. Two asset classes that have garnered significant attention are cryptocurrencies and precious metals like gold and silver. The debate over the superior haven - cryptocurrencies or bullion - has become a topic of great interest and contention.

The Rise of Cryptocurrencies
With Bitcoin as the pioneer, cryptocurrencies burst onto the financial scene in the early 2010s. They offered a novel concept: a decentralised digital currency that operated independently of traditional financial system. Proponents of cryptocurrencies argue that they provide several advantages as safe havens:

1. Accessibility and Portability:

Cryptocurrencies have gained popularity in part due to their high level of accessibility and portability. Here's a more detailed explanation of these aspects:

Accessibility: Cryptocurrencies are accessible to many individuals, regardless of location or financial background. Unlike traditional financial systems, which may require individuals to have a bank account or meet specific criteria, cryptocurrencies can be purchased and used by anyone with an internet connection. This democratises financial access and empowers people who are unbanked or underbanked to participate in the global economy.

Portability: Cryptocurrencies are incredibly portable due to their digital nature. They can be stored in digital wallets, software applications that can run on various devices such as computers, smartphones, and even specialised hardware wallets. This means that users can carry their entire cryptocurrency holdings in their pockets, making it easy to transfer or access their funds from virtually anywhere in the world. Cryptocurrencies are also highly divisible, allowing for small or large transactions with equal ease, further enhancing their portability.

The 24/7 availability of cryptocurrency markets and the ease of transferring funds globally contribute to their convenience and accessibility, as they are not limited by traditional banking hours or cross-border restrictions.

2. Transparency and Security:

Transparency: Every cryptocurrency transaction is recorded on a public ledger, commonly known as the blockchain. This ledger is distributed across a network of nodes, making altering or manipulating transaction history nearly impossible. This transparency means that anyone can independently verify the validity of transactions, enhancing trust in the system. This can be particularly useful in situations where trust is essential, such as in supply chain management, voting systems, or real-time auditing of financial transactions.

Security: The security of cryptocurrencies is primarily attributed to the cryptographic



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techniques used in their creation and the decentralised nature of the blockchain. Transactions are secured through public and private keys, making it extremely difficult for unauthorised parties to access or alter the funds. Additionally, the decentralised structure of the blockchain means that there is no central point of failure, reducing the risk of hacking or data breaches. While no system is entirely immune to attacks, block chain's security features make it a robust and resilient technology.

These aspects of transparency and security make cryptocurrencies appealing for a wide range of applications beyond just digital currencies, including smart contracts, identity verification, and asset tracking.

3. Hedge against Fiat Currency

Devaluation: Cryptocurrencies are often considered a hedge against the devaluation of fiat currencies, particularly during economic

instability or high inflation. Here's a more detailed explanation:

Hedge against Inflation and

Devaluation: Unlike traditional fiat currencies, which can be printed or devalued by central authorities, many cryptocurrencies have a limited supply. For instance, Bitcoin has a fixed supply cap of 21 million coins. This scarcity can make cryptocurrencies a store of value similar to precious metals like gold. Some investors turn to cryptocurrencies to preserve their wealth and assets when fiat currencies lose value due to inflation or economic turmoil.

Digital Equivalent of Gold: In this context, cryptocurrencies are often compared to gold because they share qualities such as scarcity and the potential to retain value during economic crises. Gold has been a traditional hedge against economic instability, and cryptocurrencies offer a modern, digital alternative for those who prefer digital assets.

It's important to note that the cryptocurrency market is highly volatile, and the value of cryptocurrencies can fluctuate significantly. Therefore, while they are seen as hedges against devaluation, they also carry their unique risks and speculative elements that investors need to consider.

The Time-Tested Appeal of

Bullion Bullion, particularly gold and silver, has been a haven for centuries. Its appeal rests on several key attributes:

1. Tangibility and History: Gold and silver's appeal as tangible assets is deeply intertwined with their historical significance. These precious metals have been admired and cherished for their physical

attributes throughout human history. Unlike digital or abstract assets, such as stocks or bonds, you can hold gold and silver in your hand, which gives them a real, palpable value. This tangibility instils a sense of security and permanence, as people have recognised these metals as stores of value for thousands of years. From the first coins minted in ancient civilisations to the gold bars held in central banks today, the tangible nature of bullion has a timeless appeal.

2. Stability during Crises: One of the most compelling aspects of bullion is its remarkable stability during economic turmoil. When financial markets are in upheaval and traditional investments are in flux, gold and silver often provide a safe harbour. Investors turn to these precious metals to preserve their wealth when other assets, like stocks, maybe plummeting in value. This reliability during crises is because gold and silver are not tied to the performance of corporations or governments, making them a dependable choice for risk-averse investors seeking financial security in uncertain times.

3. Lack of Dependency on Technology: In a world increasingly reliant on technology and interconnectedness, bullion's lack of dependence on modern technology is a reassuring quality. Gold and silver are inherently robust, unlike cryptocurrencies, which require the internet and advanced technology to exist and function. They do not rely on electricity, network connectivity, or complex computer systems. This makes them resilient in various adverse scenarios, including power outages, cyberattacks, or disruptions in the digital infrastructure. Their intrinsic value is not contingent on the stability of the internet or the

reliability of digital systems, which provides a sense of reassurance and independence in an increasingly digital age.

"The Debate" The debate over whether cryptocurrencies or bullion (precious metals like gold and silver) make a better safe haven asset class is contentious, and it ultimately comes down to individual preferences and risk tolerance. Let's delve deeper into some key points to consider in this ongoing debate:

Volatility:

- a. **Cryptocurrencies:** Cryptocurrencies are renowned for their price volatility. They can experience substantial price fluctuations over a short period, leading to significant gains for investors. However, this volatility poses substantial risks, as investors can experience equally significant losses. Some view this volatility as an opportunity, while others see it as a drawback. Bitcoin has been known for its high volatility. Annualized volatility for Bitcoin has often exceeded 60% and sometimes gone significantly higher. Bitcoin's price can experience rapid and substantial price swings over short periods.
- b. **Bullion:** Precious metals, like gold, are traditionally considered less volatile. They tend to have more stable, gradual price movements over time. This stability can reassure investors who prefer a haven with lower short-term risk. Historical annualized volatility for gold has typically ranged from 10% to 20% over extended periods. Gold is often considered a relatively stable and low-volatility asset compared to many other investments.

Measure	Gold	Bitcoin
Standard Deviation	\$55	\$2599
Mean	\$1934	\$27567
% of deviation from mean	3%	9%

From January to October 2023, the standard deviation for both asset classes stands at 55 for gold and 2599 for bitcoin. This standard deviation can serve as an indicator of the level of volatility present in the markets for gold and bitcoin,

expressed as a percentage deviation from the mean. A higher standard deviation signifies greater price fluctuations and, consequently, increased market volatility. Investors and analysts closely monitor these figures to assess risk and make

informed decisions in these asset classes. It's crucial to consider the implications of these deviations when managing portfolios and devising trading strategies for gold and bitcoin in the given time frame.

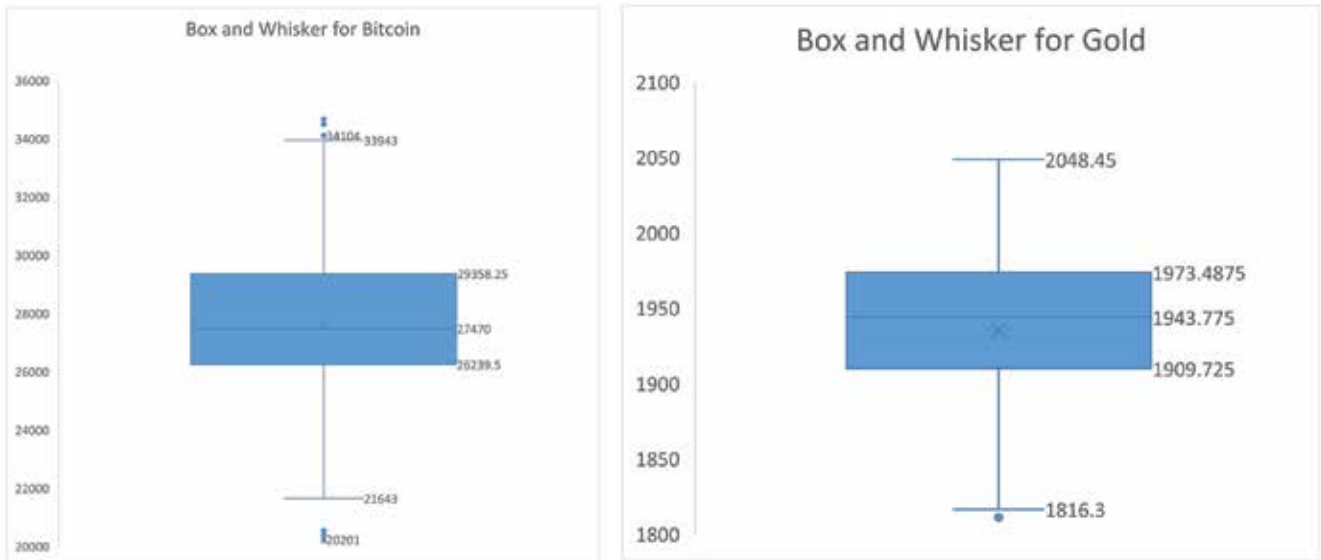
Month	Annualised volatility	Column1	Annualised return	Column3
	LBMA Gold	Bitcoin	LBMA Gold	Bitcoin
Jan-23	9.5%	36.4%	48%	357%
Feb-23	10.0%	30.6%	-44%	13%
Mar-23	14.0%	53.6%	59%	161%
Apr-23	11.6%	30.6%	2%	25%
May-23	11.2%	26.3%	-6%	-48%
Jun-23	5.6%	37.3%	-20%	90%
Jul-23	7.5%	19.2%	22%	-27%
Aug-23	6.6%	31.6%	-10%	-80%
Sep-23	9.8%	17.3%	-42%	30%

In comparing LBMA Gold and Bitcoin, LBMA Gold exhibits varying annualized volatility, ranging from 5.6% to 14.0%, with the highest volatility observed in March-23. Similarly, Bitcoin shows fluctuating annualized volatility, ranging from 17.3% to 53.6%, with the peak in March-23.

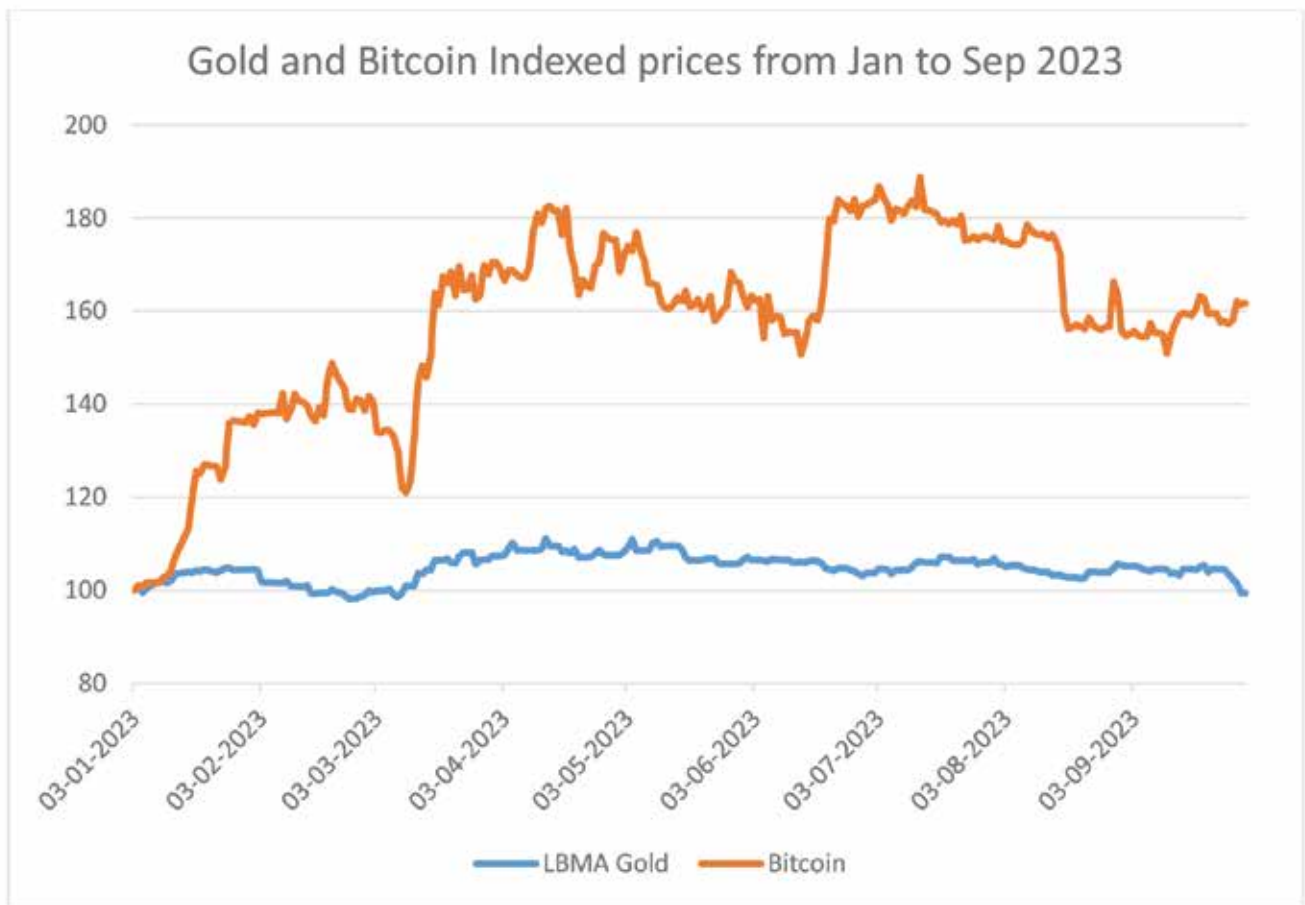
Regarding performance, LBMA Gold consistently generated positive

returns between 1% and 59% in all months, with its highest return occurring in March-23. In contrast, Bitcoin displayed mixed performance, with returns ranging from -80% (in August-23) to 357% (in January-23), with the highest return recorded in January-23. Notably, there is no strict correlation between higher volatility and higher returns, as exemplified by the significant difference in returns between LBMA Gold and Bitcoin in March-23, despite their similar high volatility.

Bitcoin consistently exhibits significantly higher volatility compared to LBMA Gold, leading to more volatile returns that can vary widely, encompassing both extreme positive and negative outcomes. These insights underline the risk and reward trade-off investors must consider, with Bitcoin offering the potential for higher returns but at the cost of significantly greater volatility, while LBMA Gold provides more stable returns in this specific time frame.



The above figure provides valuable insight into the price fluctuations of gold and bitcoin. It vividly illustrates the ranges within which these assets have been fluctuating. Notably, gold exhibits a 3% deviation from its mean, reflecting a moderate level of price movement during this period. In contrast, bitcoin displays a substantial 9% deviation from its mean, underscoring the heightened volatility in the bitcoin market. These percentage movements serve as a clear indication of the relative stability of gold and the pronounced price swings inherent to bitcoin. Investors and traders can leverage this information to tailor their risk management



Disclaimer- The price fluctuations vary from year to year depending on the market conditions and the above prices are for the year 2023 only

During the specified period, the price of bitcoin experienced significant price volatility, with substantial fluctuations observed around its mean price. In contrast, the price of gold displayed relatively more stability, with price movements staying within a narrower range around its mean value. These observations highlight the differing levels of volatility and risk associated with each asset during the specified timeframe, providing valuable information for investors and traders looking to assess and manage their portfolios.

Diversification:

Many investors diversify their portfolios by holding both cryptocurrencies and bullion. Diversification involves spreading investments across different asset classes to reduce risk. This approach aims to strike a balance between the advantages and disadvantages of each asset class. By doing so, investors can benefit from the growth

potential of cryptocurrencies while also having the stability of bullion in their portfolio.

Long-Term vs. Short-Term:

- a. **Cryptocurrencies:**
Cryptocurrencies are often viewed as more suitable for short-term speculation. Some investors use them as trading assets to profit from price fluctuations. However, some also see them as a long-term store of value, especially in the context of concerns about fiat currency devaluation or economic instability.
- b. **Bullion:** Bullion is traditionally seen as a long-term store of value. It has a history of being a reliable asset for preserving wealth over extended periods. Investors often turn to precious metals like gold as a hedge against economic uncertainties and a store of value that can be passed down through generations.

Regulatory Environment:

- a. The regulatory environment for cryptocurrencies varies widely by country and can significantly impact their safety as an investment. Regulatory challenges can affect the cryptocurrency market's legality, taxation, and overall stability. Some countries have embraced cryptocurrencies, while others have imposed strict regulations or outright bans. This lack of uniformity can be a source of concern for some investors.
- b. Bullion is subject to fewer regulatory challenges, as it has a well-established and largely stable market. Government oversight is typically focused on issues like the purity of the metal and the prevention of counterfeiting. As a result, bullion can provide a level of regulatory certainty that cryptocurrencies may not offer in all jurisdictions.

Conclusion

In conclusion, the debate between cryptocurrencies and bullion as safe-haven assets is complex and multifaceted. Individual investors must carefully weigh their risk tolerance, investment goals, and market conditions when deciding which asset class to choose. Diversifying a portfolio with both cryptocurrencies and bullion is one strategy that allows investors to benefit from the unique characteristics of each and find a balance that suits their financial objectives. Both asset classes offer unique advantages and disadvantages, and their suitability depends on an individual's financial goals, risk tolerance, and investment strategy.

Ultimately, the choice between cryptocurrencies and bullion may not be an "either-or" decision. Many investors find value in diversifying their portfolios to include both, recognising that each asset class can play a role in safeguarding wealth in an uncertain world. Ultimately, the key to successful investing lies in informed decision-making and a clear understanding of the risks and rewards associated with each choice.